

CITY OF HUNTSVILLE, TEXAS

INVESTMENT & BANKING POLICIES

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TABLE OF CONTENTS

PART I - INVESTMENT POLICY

I.	Purpose of Policy	1
II.	Scope of Policy	1
III.	Designation of Investment Officers	1
IV.	Investment Training	1
V.	Ethics and Conflict of Interest	2
VI.	Objectives	2
VII.	Market Yield (Benchmark)/Market Price of Investments	3
VIII.	Investment Strategies	3
IX.	Prudence/Standard of Care	4
X.	Diversification	4
XI.	Maximum Maturities	4
XII.	Purchase Procedures	4-5
XIII.	Collateralization	5
XIV.	Safekeeping and Custody	5
XV.	Internal Control/Compliance Audit	5
XVI.	Authorized Financial Dealers and Institutions	5
XVII.	Authorized Investments	6-9
XVIII.	Investment Pools	9-11
XIX.	Reporting	11
XX.	Policy Adoption	11

PART II - BANKING SERVICES POLICY

I.	Establishment of Banking Depository	11-12
II.	Collateralization Requirements/Safekeeping and Custody	13-14

PART III - POST EMPLOYMENT BENEFIT PLAN

I.	Introduction	17
II.	Purpose	18
III.	Investment Objectives	19
IV.	Investment Guideline for Asset Management	20
V.	Performance Evaluation.....	23
VI.	Investment Manager Selection	25
II.	Definitions	26

Attachment A

Glossary

Appendix I - State Law List of Authorized Investments

CITY OF HUNTSVILLE INVESTMENT AND BANKING POLICIES

PART I - INVESTMENT POLICY**I. PURPOSE OF POLICY**

This policy is adopted by the City Council to direct and limit the financial affairs of the City of Huntsville. It is the policy of the City of Huntsville to invest public funds in a manner which will provide the maximum security of principal invested at a reasonable market rate of return, with consideration of the City's risk constraints and cash flow needs. Receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in compliance with all state and local statutes, including the Texas Public Funds Investment Act.

II. SCOPE OF POLICY

This policy applies to all funds or financial resources available for investment by the City accounted for in the *City of Huntsville, Texas Comprehensive Annual Financial Report* and include the General Fund, General Obligation Debt Service Fund, Special Revenue Funds, Enterprise Funds, Permanent Funds, Internal Service Funds, the City's self-funded Health Insurance Fund, and will include any new fund created by the City Council unless specifically exempted by City Council. These policies do not, however, govern funds that are managed under separate investment programs such as retirement funds, pension funds, deferred compensation funds and certain private donations, that are maintained as required by federal and state law, other local policies, or donor stipulations.

III. DESIGNATION OF INVESTMENT OFFICERS

The authority to manage the City of Huntsville investment program is derived from State Statute, the City Charter, and these investment policies. Management responsibility for the investment program is hereby delegated to the City Manager and Finance Director, designated as Investment Officers for the City of Huntsville, who shall establish written procedures for the operation of the investment program consistent with this investment policy and shall be responsible for the operation of the investment program consistent with this investment policy. The Director of Finance, under general supervision of the City Manager, shall direct the cash management program of the City. (See City Charter Art. XI). The City Manager and/or Director of Finance may deposit, withdraw, invest, transfer, and manage City funds. The Investment Officers shall report to the Finance Committee of City Council. The Finance Committee, appointed by the Mayor, shall be responsible for monitoring, reviewing and making recommendations regarding the City's investment program to the City Council.

The Director of Finance may authorize persons to engage in investment transactions and approve wire transfers used in the process of investing.

IV. INVESTMENT TRAINING

The Finance Director and City Manager shall attend investment training on an annual basis that includes education in investment controls, security risks, strategy risks, market risks and general compliance with state law. Not less than once in a two-year period, the investment officers shall receive not less than 10 hours of instruction relating to investment responsibilities.

V. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment function shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials

shall disclose to the Finance Committee of the City Council any material financial interest in financial institutions that conduct business with the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Huntsville, particularly with regard to the time of purchases and sales. Investment officers shall comply with Texas Government Code section 2256.005(I) relating to personal business relationships with a business organization offering to engage in an investment transaction with the City of Huntsville.

VI. OBJECTIVES

The objectives of the City's investment policies are, in order of priority: preservation and safety of principal, liquidity and yield/return on investments. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

- A. *Preservation and safety of principal* shall be the foremost objective of the City's investment program. Preservation and safety of principal shall be obtained through protection of principal and safekeeping.
 - 1. The City shall control risk of loss due to the failure of a security issuer or guarantor. Such risk shall be controlled by investing in the safest types of securities, by qualifying the financial institution with whom the City will transact, and by portfolio diversification.
 - 2. The City shall also control risks of loss by requiring collateral for depository bank funds to be held by a financial institution separate from the depository bank.
- B. *Liquidity* shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. A security may be liquidated to meet unanticipated cash requirements, to redeploy cash into other investments expected to outperform current holdings, or to otherwise adjust the City's portfolio.
- C. *Yield/Return on Investments.* The City of Huntsville investment portfolio is designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the City of Huntsville investment risk constraints and the cash flow characteristics of the portfolio. Investments, other than the overnight cash concentration account, shall be made in permitted obligations at yields equal to or greater than the bond equivalent yield on United States Treasury obligations of comparable maturity.

VII. MARKET YIELD (BENCHMARK)

The market yield benchmark shall be a yield equal to the bond equivalent yield on United States Treasury obligations of comparable maturity.

If selling a security prior to a fixed date maturity at a gain or loss, the investment officers shall notify the Finance Committee of City Council at its next meeting. The City shall monitor the market price of investments as of the end of each month through reports provided by brokers and/or the use of a purchased service or available software.

VIII. INVESTMENT STRATEGIES

The City of Huntsville shall generally invest funds with the intent to hold to maturity. Investment selection shall be based on legality, appropriateness, liquidity, and risk/return considerations. Monies designed for immediate expenditure should be passively invested to allow for liquidity to pay upcoming disbursements, (payroll, debt service payments, payables, etc.), and allow for structuring the investment portfolio on a “laddered” basis. The City of Huntsville maintains portfolios that utilize four specific investment strategies designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. *Operating Funds* have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. The weighted average days to maturity of these funds shall be less than 365 days and shall be calculated using the stated final maturity date for each security.
- B. *Debt Service Funds* shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligations on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date.
- C. *Debt Service Reserve Funds* shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. In addition to the bond ordinance specific to an individual bond issue, which sets out investment parameters, securities shall have a maturity of less than five years. Investments shall be limited to obligations of the United States or its agencies and instrumentalities or in approved investment pools.
- D. *Special Projects* or *Special Purpose Fund* portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.

These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

IX. PRUDENCE/STANDARD OF CARE

Investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. In determining whether the City’s investment officers have exercised prudence with respect to an investment decision, the determination shall be made taking into consideration, the investment of all funds, or funds under the City’s control, over which they have responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision is consistent with this investment policy.

X. DIVERSIFICATION

The City of Huntsville will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution. Diversification will also include terms of maturity as well as instrument type and issue. Investments shall not exceed more than 20% of the capitalization of the financial institution other than the main depository. Bond proceeds may be invested in a single security or investment which exceeds the City’s diversification limits if the Investment Officers, with

concurrence of the Finance Committee, determine that such an investment is necessary to comply with Federal arbitrage restriction or to facilitate arbitrage record keeping and calculation.

XI. MAXIMUM MATURITIES

In order to stabilize yield for budgeting purposes, the City shall maintain a portion of its investments in obligations with maturities greater than one year. No investment shall be made with a maturity greater than five years without express authority of the Finance Committee of the City Council. In determining the amount of investment longer than one year, cash flow and unallocated reserve funds will be evaluated. The maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio shall not exceed 2 years.

XII. PURCHASE PROCEDURES

- A. The City may, without further bidding, utilize any program established through the Texas Inter-local Cooperation Act that invests in funds authorized by the Public Funds Investment Act; or purchase certificates of deposit or other approved securities through its primary depository bank.

When possible, other investments should be made after competitive bids are solicited. Competitive bids may be solicited orally, in writing, electronically, or in any combination of these methods. An offer worksheet shall be kept for each bid transaction showing the name of dealer/bank contacted, amount of principal to be invested, yield quoted, type of investment, fund designation, maturity date, issue date, length of time invested, and cusip number. Purchase of a security shall not be made at a price that exceeds the existing market value of the security.

The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank. The deposit shall be held in the name of the City of Huntsville and shall be evidenced by a trust receipt of the bank with which the securities are deposited.

XIII. COLLATERALIZATION

Collateralization will be required on two types of investments: *certificates of deposit* and *repurchase (and reverse) agreements*. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of the market value of principal and accrued interest. The City chooses to limit collateral to obligations of the United States or its agencies and instrumentalities, and direct obligations of the State of Texas or its agencies and instrumentalities. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. Collateral substitution is allowed.

XIV. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements entered into by the City of Huntsville shall be conducted on a delivery vs. payment (DVP) basis. Securities shall be held by a third party custodian. Safekeeping receipts shall be required.

XV. INTERNAL CONTROL/COMPLIANCE AUDIT

A system of internal controls shall be established. As part of the City's annual audit, an independent auditor shall review internal controls, investment practices, investment

performance, quarterly reports prepared by the investment officers and the result of the review shall be reported to the Finance Committee of the City Council. A compliance audit of management control on investments and adherence to investment policies is to be included.

XVI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Council shall approve at least three broker/dealers upon recommendation of the Finance Committee for use by the designated investment officers. The broker/dealers may include primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The selection process shall include a proposal process with potential broker/dealers providing a completed broker/dealer questionnaire, certification of having read the City of Huntsville investment policy, proof of National Association of Security Dealers certification and proof of state registration.

The selected broker/dealers must provide a written instrument certifying that they have received and reviewed the City's Investment Policy and acknowledge that the business organization has implemented reasonable procedures and control, in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the City's Investment Policy. An investment officer may not buy any securities from a firm that has not filed this instrument.

An annual review of the financial condition and registrations of qualified bidders is to be conducted by the City Manager or Finance Director and a current audited financial statement is required to be on file for each broker/dealer that conducts transactions with the City. The Finance Committee shall review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

XVII. AUTHORIZED INVESTMENTS

The City of Huntsville may invest only in the safest type of securities and in accordance with Texas state law (Appendix I). There are two general categories of authorized investments for the City of Huntsville: (1) investments which the designated investment officers may invest without prior approval from the Finance Committee; and, (2) investments that require prior Finance Committee approval.

A. Authorized investments that do **not** require prior approval of Finance Committee:

1. Obligations of, or Guaranteed by, Governmental Entities:

- a. obligations of the United States or its agencies and instrumentalities;
- b. direct obligations of the State of Texas or its agencies and instrumentalities,
- c. other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and [its] instrumentalities;
- d. obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- e. The following are not authorized investments under this section:
 - 1) obligations whose payment represents the coupon payments on

- the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- 2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- 3) *collateralized mortgage obligations* that have a stated final maturity date greater than 10 years; and
- 4) *collateralized mortgage obligations* the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

2. Certificates of Deposit:

Certificates of deposit issued by state and national banks, or a savings bank or credit union that are:

- a. guaranteed or insured by the Federal Deposit Insurance Corporation, or comparable insurance entities or their successors; or
- b. secured in any other manner and amount provided by law for deposits of the City.
- c. secured through an authorized broker in accordance with the Public Funds Investment Act (PFIA).

B. Authorized investments requiring prior approval of the Finance Committee:

- 1. *Collateralized Mortgage Obligations (CMO=s)* directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States. The stated maturity date cannot be greater than 10 years and the interest rate cannot be determined by an index that adjusts opposite to the changes in a market index.

2. Repurchase Agreements

“Repurchase agreement” means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Texas Government Code section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a *reverse security repurchase agreement*. The primary dealer and the City of Huntsville must sign a Master Repurchase Agreement which details acceptable types of collateral; the standard for collateral custody and control; the collateral valuation and initial margin, accrued interest, a requirement of marking to market, and margin call; the method of transmitting security income; and, the condition for agreement termination and acceptable methods for delivery of securities and collateral.

A *fully collateralized repurchase agreement* is an authorized investment if the repurchase agreement has a defined termination date, is secured by obligations described by Texas Government Code section 2256.009(a)(1), and, requires the securities being purchased by the City to be pledged to the City, held in the City=s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a

financial institution doing business in Texas.

Notwithstanding any other law, the term of any *reverse security repurchase agreement* may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

Money received by the City under the terms of a *reverse security repurchase agreement* shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the *reverse security repurchase agreement*.

3. Banker's Acceptances

A *bankers acceptance* is an authorized investment if the *bankers= acceptance*: (a) has a stated maturity of 270 days or fewer from the date of its issuance; (b) will be, in accordance with its terms, liquidated in full at maturity; (c) is eligible for collateral for borrowing from a Federal Reserve Bank; and (d) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

4. Commercial Paper

Commercial paper is an authorized investment if the *commercial paper* has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

5. Mutual Funds

- a. A *no-load money market mutual fund* is an authorized investment if: (1) the *mutual fund* is registered with and regulated by the Securities and Exchange Commission; (2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); (3) has a dollar-weighted average stated maturity of 90 days or fewer; and (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- b. In addition to a *no-load money market mutual fund* permitted as an authorized investment in Subsection (a), a *no-load mutual fund* is an authorized investment under this subchapter if the *mutual fund*:
 - 1) is registered with the Securities and Exchange Commission;
 - 2) has an average weighted maturity of less than two years;
 - 3) is invested exclusively in obligations approved by this subchapter;
 - 4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
 - 5) conforms to the requirements set forth in Texas Government Code sections 2256.016(b) and (c) relating to the eligibility of

investment pools to receive and invest funds of investing entities.

- c. The City is **not** authorized by this section to:
 - 1) invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in *money market mutual funds* described in Subsection (a) or *mutual funds* described in Subsection (b), either separately or collectively;
 - 2) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in *mutual funds* described in Subsection (b);
 - 3) invest any portion of bond proceeds, reserves and funds held for debt service, in *mutual funds* described in Subsection (b); or
 - 4) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one *mutual fund* described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

C. Effect of Loss of Required Rating

An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

XVIII. INVESTMENT POOLS

- A. The City may invest in eligible *investment pools* as defined by the Public Funds Investment Act, which meet criteria outlined in chapter Texas Government Code section 2256.016 and section 2256.019. The Council shall authorize participation in the pool by resolution or ordinance.
- B. The City must receive from the pool an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
 - 1. a description of eligible investment securities;
 - 2. the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - 3. the maximum stated maturity date any investment security within the portfolio has;
 - 4. a written statement of investment policy and objectives;
 - 5. the size of the pool;
 - 6. the names of the members of the advisory board of the pool and the dates their terms expire;
 - 7. the custodian bank that will safe keep the pool's assets; a description of how the securities are safeguarded (including the settlement process) and how often the securities are priced;

8. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
 9. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
 10. the name and address of the independent auditor of the pool and how often the program is audited;
 11. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool including how often and what size deposits and withdrawals are allowed, and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and;
 12. the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios;
 13. a description of interest calculations and how it is distributed and how gains and losses are treated;
 14. a schedule for receiving statements and portfolio listings;
 15. an explanation of whether reserves, retained earnings, etc. are utilized by the pool;
 16. a fee schedule, including when and how it is assessed;
 17. an explanation of whether the pool is eligible and/or will it accept bond proceeds.
- C. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an *investment pool* must furnish to the investment officer or other authorized representatives of the entity:
1. investment transaction confirmations; and
 2. a monthly report that contains, at a minimum, the following information:
 - a. the types and percentage breakdown of securities in which the pool is invested;
 - b. the current dollar-weighted average maturity, based on the stated maturity date, of the pool;
 - c. the current percentage of the pool=s portfolio in investments that have stated maturities of more than one year;
 - d. the book value versus the market value of the pool=s portfolio, using amortized cost valuation;
 - e. the size of the pool;
 - f. the number of participants in the pool;
 - g. the custodian bank that is safekeeping the assets of the pool;
 - h. a listing of daily transaction activity of the entity participating in the pool;
 - i. the yield and expense ratio of the pool;
 - j. the portfolio managers of the pool; and
 - k. any changes or addenda to the offering circular.

- D. The City by contract may delegate to an *investment pool* the authority to hold legal title as custodian of investments purchased with its local funds.
- E. “Yield” shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

XIX. REPORTING

Not less than quarterly, the Finance Director shall prepare and submit to the City Council a written report of investment transactions for the preceding reporting period. The report shall describe in detail the investment position of the City on the date of the report, and state compliance of the investment portfolio, as it relates to the investment strategy and investment policies. The report shall contain a summary statement prepared in compliance with generally accepted accounting principles of each pools fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, the ending market value for the period, a comparison to the benchmark bond equivalent yield or United States Treasury obligation of comparable maturity and fully accrued interest for the reporting period. The report shall state the book value, market value, and maturity date of each separately invested asset as of the beginning and end of the reporting period by the type of security and fund type invested. The fund for which each individual investment was acquired shall be reported. The report shall be presented to the Council and shall be jointly signed by the Finance Director and City Manager within 21 days after the end of the period. On a monthly basis, the Finance Director shall provide to the City Council, in summary form, a report showing by fund, total cash, monies in investment pools and securities by type and maturity date, and a summary of interest earnings.

XX. POLICY ADOPTION

The City of Huntsville investment policy shall be adopted by ordinance of the City Council. The policy shall be reviewed annually by the Finance Committee, and any modifications made thereto must be approved by the City Council. Annually, City Council shall adopt a resolution or include in the budget ordinance information stating that it has reviewed the investment policy and investment strategies. The resolution/ordinance shall record any changes made to the investment policy or investment strategies.

PART II - BANKING SERVICES POLICY

The City Council shall approve a financial institution/institutions to act as a depository bank for a two year period.

I. ESTABLISHMENT OF BANKING DEPOSITORY

- A. The City Council shall select a bank, credit union or savings association as its primary depository for normal banking transactions. In addition, the City may designate one or more other depositories for investment transactions.
- B. The City's primary banking depository shall have a branch located in the City.
- C. Not more than four weeks and not less than one week before the City Council considers applications for its depository, the City shall publish at least once in the City's official

newspaper a notice of the meeting at which applications are to be received.

- D. A bank, credit union or savings association desiring to be selected as the city depository must deliver its application to the City Secretary on or before the time stated in the notice. The application shall be accompanied by an affidavit disclosing conflicts of interest, if any, that apply to the selection of the depository. The City's Finance Committee may, as directed by City Council, review the applications and prepare a recommendation regarding the selection of depositories for Council.
- E. The City Council may, after considering the application and the recommendation, if any, of its staff and/or Finance Committee:
 - 1. select as city depositories one or more banks, credit unions or savings associations that offer the most favorable terms and conditions for the handling of the municipal funds; or
 - 2. reject any or all of the applications.
- F. The City shall retain the right to withdraw any municipal funds deposited in a depository that are not immediately required to pay obligations of the City and invest those funds as outlined in these **Investment and Banking Policies**.
- G. The Director of Finance shall immediately deposit in the depository to the credit of the City any money received.
- H. Except as provided for wire transfers to other depositories or ACH transfers, the funds of the City may be paid out of a depository only on the checks of the City.
- I. Checks must be signed by the Mayor and either the City Manager or Finance Director. A facsimile signature may be used by the Mayor and/or City Manager.
- J. Checks must be authorized by the Mayor, City Manager, or Finance Director.
- K. No check shall be drawn on a *special fund* created to pay bonded indebtedness other than to pay principal or interest on the indebtedness, or to invest the fund as provided by these policies or law.
- L. All checks shall be payable by the depository at its place of business.
- M. The Director of Finance may, with approval of Council, pay a bond, coupon, or other indebtedness of the City at a place other than the depository if by its terms the indebtedness is payable on maturity at the other location.

II. COLLATERALIZATION REQUIREMENTS/SAFEKEEPING AND CUSTODY

- A. All public funds held in a *checking* account or *time deposit* at a bank or other depository shall be secured by eligible security. An eligible security means:
 - 1. a surety bond;
 - 2. investment securities (obligations of the United States or its agencies and instrumentalities); or
 - 3. ownership or beneficial interest (but not merely an option contract to

purchase or sell) any authorized investment.

- B. The market value of the collateral shall equal at least 102% of the cash value of a *repurchase agreement*. Otherwise, market value of the *investment securities* used as collateral should be at least equal to the deposits of public funds increased by the amount of any accrued interest and reduced by the extent of insurance through an agency of the United States.
- C. Safekeeping
1. A depository for the City may deposit investment securities pledged to secure deposits of public funds with a custodian that the City has approved as a custodian and that is either:
 - a. a state or national bank domiciled in the State of Texas and which has a capital stock and permanent surplus of not less than \$5 million.
 - b. the Texas Treasury Safekeeping Trust Company; or
 - c. a Federal Reserve Bank or its branches.
 2. The securities shall be held in trust by the custodian to secure the deposit of public funds of the City in the depository pledging the securities.
 3. On receipt of the *investment securities*, the custodian shall immediately, by book entry or otherwise, identify on its books and records the pledge of the securities to the City and shall promptly issue and deliver to the Director of Finance of the City trust receipts for the securities pledged. The security evidenced by the trust receipts is subject to inspection by the City or its agents at any time.
 4. A custodian holding in trust *investment securities* of a depository may deposit the pledged securities with a permitted institution. These securities shall be held by the permitted institution to secure funds deposited by the City in the depository pledging the securities. On receipt of the securities, the permitted institution shall immediately issue to the custodian an advice of transaction or other document evidencing the deposit of the securities. When the pledged securities held by a custodian are deposited, the permitted institution may apply book entry procedures to the securities. The records of the permitted institution shall at all times reflect the name of the custodian depositing the pledged securities. The trust receipts the custodian issues to the City shall indicate that the custodian has deposited with the permitted institution the pledged securities held in trust for the depository pledging the securities.
 5. The custodian shall maintain separate, accurate, and complete records relating to the pledged investment securities and all transactions relating to the pledged investment securities.
- D. The Director of Finance shall inform its depositories of significant changes in the amount or activity of public funds reasonably in advance of such changes.

Section 3 — City of Huntsville
Post-Employment Benefit Plan

Section 1 — INTRODUCTION

The City of Huntsville Post Employment Benefit Plan (the “Plan”), a retirement plan qualified under Internal Revenue Code Section 115, provides retirement benefits to eligible employees of City of Huntsville.

The assets of the Plan are held in a tax-exempt trust for the benefit of the Plans’ participants and beneficiaries. The objective of the Plan is to provide employees with a source of retirement income from accumulated contributions and investment returns.

The Pension Plan Finance Committee (the “Finance Committee”) is responsible for overseeing and monitoring the investment of the Plans’ assets. It will generally be responsible for:

- A. Promulgating the Plans’ Investment Policy Statement.
- B. Selecting the investment funds in which the Plans’ assets will be invested and/or the investment managers who will be responsible for investing the Plans’ assets.
- C. Reviewing and making changes in the investment funds and/or investment managers for compliance with the Investment Policy Statement.
- D. Making revisions to the Investment Policy Statement to reflect changing conditions within the Plans or the investment environment or to make it more effective.

The Finance Committee is authorized to retain professional investment advisory services to provide advice with respect to the investment and monitoring of the Plans’ assets under the guidance of the Finance Committee.

This Investment Policy Statement is intended to set forth the general policies that the Finance Committee will apply in selecting, monitoring and modifying the investments and/or investment managers for the Plans. While the Finance Committee intends for this Investment Policy Statement to assist the Finance Committee in satisfying its fiduciary duties and in making prudent investment decisions, no investment results or performance is, or can be, guaranteed; and no such guarantee is intended.

Section 2 — PURPOSE

This Investment Policy Statement contains guidelines regarding the investment of the assets held in trust for the Plan to assist the members of the Finance Committee in effectively selecting, monitoring and evaluating the investments and/or investment managers for the Plan.

The purposes of this Investment Policy Statement are to:

- A. Set forth the investment objectives, policies and guidelines, which the Finance Committee judges to be appropriate and prudent, in consideration of the needs of the Plan.
- B. Establish the criteria against which the investments and/or the investment management organizations selected by the Finance Committee are to be measured.
- C. Set forth the target asset mix for the investment of the Plans' assets.
- D. Serve as a review document to guide the Finance Committee's ongoing oversight of the investment of the Plans' assets.

Section 3 — INVESTMENT OBJECTIVES

It is the intention of the Finance Committee to build and maintain the Plans' trust through employer contributions that satisfy legal requirements and investment returns. The Finance Committee expects that the amount of investment income plus capital appreciation from the Plans' trust combined with contributions to the trust will exceed the amount of pension payments. Over shorter periods, the Finance Committee understands that at times investment income plus capital appreciation plus contributions to the trust may, in total, be less than the amount of pension payments.

Because of the long-term nature of the Plans' obligations, the Finance Committee's intent is to consider the following goals in managing the trust:

- A. Long-term (*i.e.*, five years and more) performance objectives;
- B. Maintenance of cash reserves sufficient to pay benefits under the Plan; and
- C. Achievement of the highest long-term rate of return practicable without taking excessive risk that could jeopardize the Plans' funding policy or subject the Plans' sponsors to undue funding volatility.

The specific investment performance objective is for the trust to achieve a rate of investment return over any five-year period that both:

- A. Meets or exceeds the Plans' actuarial interest rate assumption,
- B. Exceeds by 2% the rate of inflation (as measured by the Consumer Price Index for all Urban Consumers),
- C. Exceeds the return of the following custom market index: 0% cash, 38% S&P 500, 8% Russell 2000 index, 8% Russell Midcap index, 21% EAFE index, and 25% Barclays Capital Aggregate Bond index.

In carrying out the foregoing policy and objectives, the trust will be invested in accordance with the guidelines set forth in Section 4.

***Section 4* — INVESTMENT GUIDELINES FOR ASSET MANAGEMENT**

The assets of the Plans will be invested in a manner consistent with generally accepted standards of fiduciary responsibility. The Finance Committee will act with the care, skill, prudence and diligence under the prevailing circumstances that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Finance Committee will discharge its duties with respect to the investment of the trust solely in the interest of the participants and beneficiaries of the Plan.

The Finance Committee will select appropriate investment alternatives using the following criteria:

- A. The Finance Committee may select investment managers from one or more of the following:
 - 1) Mutual fund management companies;
 - 2) Banks;
 - 3) Registered investment advisory firms; and
 - 4) Insurance companies.
- B. Each investment manager must clearly articulate for the Finance Committee the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- C. Each investment manager must be able to provide for the Finance Committee historical quarterly performance numbers calculated on a time-weighted basis and reported net of all fees.
- D. Each investment manager must provide for the Finance Committee volatility measurements so that an appropriate risk/return profile can be evaluated.
- E. Each investment manager must be able to provide for the Finance Committee information on its history, key personnel, fee schedules and expenses, and current investment exposure.
- F. A City of Huntsville designated Investment Officer may change the Target Allocation and ranges and shall report any change to the Finance Committee

The Finance Committee recognizes that the trust's long-term investment performance will be greatly affected by the mix of the asset

classes in which it is invested; accordingly, because of the policy and objectives stated in Section 3, the trust's asset allocation will favor equity investments.

Specifically, the Finance Committee has identified the following asset classes to be appropriate for investment by the trust. In addition, the Finance Committee has defined the following ranges to be used as parameters of investment percentages the Plans' assets:

	<i>RANGE</i>		
	<i>MINIMUM</i>	<i>MAXIMUM</i>	<i>TARGET</i>
Fixed Income Assets:	20%	30%	25%
Large cap	33%	43%	38%
Mid cap	3%	13%	8%
Small cap	3%	13%	8%
International	16%	26%	21%
Cash/Money Market Assets	0%	5%	0%
Total			100%

Managers that manage a separate account for the trust shall have full discretion over portfolio investment decisions, subject to the following guidelines and restrictions. To the extent that commingled or mutual fund vehicles are utilized, the investment policies of those vehicles are the operative documents established herein:

- A. Investment managers will be delegated full discretion to exercise all voting rights including, but not limited to, voting proxies.
- B. For purposes of the foregoing, real estate, and securities convertible to common stock shall be classified as equity assets; money held by an insurance company in its general account shall be classified as fixed income assets

- C. Each investment manager will diversify each asset class appropriately and will seek to moderate volatility and risk as is appropriate for the asset class. The investment manager will not invest in commodities, private placements, or letter stock. The investment manager will not engage in non-covered short sales or margin trading. Transactions consisting of the purchase or sale of futures or options contracts may be permitted to the extent that they are used to diversify or equitize the portfolio and not used as speculative investments. Speculative investment in these derivatives is not permitted without the previous written approval of the Finance Committee.
- D. The investment manager must ensure, to the extent practicable, that all equity transactions (whether agency or principal) are executed at competitive rates and all fixed income transactions are competitively bid and must explain in writing to the Finance Committee the reasons for any unusually high transaction costs.
- E. The investment manager, when practicable, will disclose to the Finance Committee any significant change in the investment manager's personnel, organization, ownership, or asset management policy or method.

***Section 5* — PERFORMANCE EVALUATION**

The investment performance of the individual investments and/or investment managers will be monitored quarterly and reviewed at least annually relative to the objectives and guidelines described herein. The investment performance evaluations may include performance analyses and comparisons with the appropriate indices and investment fund universes.

The Finance Committee does not expect to respond to short-term investment developments, recognizing that the accumulation of value for eventual retirement benefit payout is generally a long-term objective and that investment competence must be measured over a complete market cycle. The Finance Committee, nevertheless, may act on interim qualitative judgments. Qualitative factors which will be reviewed on an ongoing basis include any fundamental changes in a manager's investment philosophy, organizational structure, financial condition (including any significant changes in total assets under management), personnel and fee structure.

The Finance Committee has established as one of its investment fund and/or investment manager selection criteria that, as a general proposition, over a complete market cycle, each of the Plans' investment funds and/or investment managers should typically rank in the upper half of the universe of all active investment funds and/or active managers in the same asset class with similar investment objectives.

Performance Review

The investment options will be reviewed at least annually. Among other things, the performance review of the investment options may include the following:

- A. The measurement of investment returns.
- B. A comparison of investment returns to their appropriate benchmarks.
- C. A ranking of investment returns within their appropriate universes.
- D. The measurement of risk.
- E. An assessment of each investment's adherence to the stated policies and objectives.

Termination of Investment Options

Reasons for considering replacing an investment and/or investment manager may include, but are not limited to:

- A. Significant under-performance relative to the appropriate benchmark.
- B. Significant under-performance relative to the appropriate universe average.
- C. Significant change in risk (increase or decrease).
- D. Change or loss of key personnel, relative to the significance of the particular investment.
- E. Significant increase or decrease in assets under management.
- F. A change in business practices.
- G. A change in investment style or discipline.
- H. Failure to alert the Finance Committee to pertinent changes, lawsuits or regulatory violations.
- I. Investing in non-approved securities.
- J. Identification by the Finance Committee of a more suitable investment option.

Other Review

The Investment Policy Statement will be reviewed at least annually to determine the continued appropriateness of the Investment Policy Statement in achieving the stated purpose. However, it is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets will not require adjustments to the Investment Policy Statement.

A review of the program concerning the diversity of options, the use of options, the growth of the program and any strategic planning concerning demographics will also be conducted periodically. The Finance Committee will receive a report on investment performance quarterly. Investment performance and results will be presented annually to the Council.

***Section 6* — INVESTMENT MANAGER SELECTION**

The assets of the Plan are invested under the supervision of the Finance Committee. The Finance Committee has chosen to select investment managers from the following asset classes. In addition the Finance Committee has established an investment objective for each asset class and established appropriate benchmarks and universes to be used to evaluate the investment options.

The Finance Committee understands that the indexes selected have no fees associated with their returns and the universe average is net of the fees of the underlying funds. The investment options are not required to exceed their benchmarks and universes every quarter, but are used as a basis for judging the appropriateness of the investment option selected over a full market cycle.

The asset class, objective, benchmark and comparative universe are outlined in Attachment A.

Section 7 — DEFINITIONS

The following terms will have the following meanings:

Investment Manager

“Investment manager” means the asset manager or managers expressly authorized and empowered to cause its portion of the trust to be invested and reinvested in its sole discretion (but governed by the provisions of this Investment Policy Statement) within the asset class or classes for which it is employed to manage.

Investment Return

“Investment return” means investment income and realized and unrealized gains and losses, all net of investment fees and expenses.

Market Cycle

For purposes of this Investment Policy Statement a “market cycle” will be defined as a market peak-to-trough-to-peak (or a trough-to-peak-to-trough).

Rate of Return

“Rate of return” means the annual rate of investment return.

Investment Officer

“Investment Officer” refers to the council or charter designated officials with the responsibility of investing City funds. Investment officers are required to meet educational requirements under the Public funds Investment Act.

This Statement of Investment Policy approved by the City Council of the City of Huntsville.

Date: _____ Approved by: _____

Attachment A

A. Fixed Income Options

Asset Class	Objective	Benchmark	Universe
Cash/Cash Equivalents	The investment objective of the Cash Option is to provide capital preservation.	The 3-Month Treasury Bill is the benchmark.	N/A
Intermediate Bond	The investment objective of the Bond Option is to provide income with a minor focus on capital growth.	The Barclays Capital Aggregate Bond Index is the benchmark.	The Bond Option selected will be compared to a universe of Intermediate-Term Bond mutual funds.

B. High Yield Bond Fund

Asset Class	Objective	Benchmark	Universe
High Yield Bond	The investment objective of the High Yield Bond Fund is to seek high current income, assuming greater risks including: Credit Risk, Default Risk, Interest Rate Risk, Liquidity Risk, Economic Risk, and Company Risk.	The Barclays Capital High Yield Bond Index is the benchmark.	The High Yield Bond Option will be compared to a universe of High Yield Bond mutual funds.

C. Equity Options - Domestic

Asset Class	Objective	Benchmark	Universe
Large Capitalization Blend	The investment objective of the Stock Index option is to track the performance and risk of the Standard & Poor's 500 index.	The S&P 500 Index is the benchmark. The investment options will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Large Capitalization Blend mutual funds.
Large Capitalization Value Style	The investment objective of the Large Capitalization Value Option is to provide long-term growth of capital primarily using domestic large capitalization securities with a value oriented style of management.	The Russell 1000 Value Index is the benchmark. The investment option selected will be compared to the return and the risk of the benchmark.	The Large Capitalization Value Option will be compared to a universe of Large Capitalization Value mutual funds.
Large Capitalization Growth Style	The investment objective of the Large Capitalization Growth Option is to provide long-term growth of capital primarily using domestic large capitalization securities with a growth oriented style of management.	The Russell 1000 Growth Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark, net of investment management fees.	The investment option selected will be compared to a universe of Large Capitalization Growth mutual funds, net of investment management fees.

Asset Class	Objective	Benchmark	Universe
Mid Capitalization Value Style	The investment objective of the Mid Capitalization Value Option is to provide long-term growth of capital primarily using domestic mid capitalization securities with a value-oriented style of management.	The Russell Mid-cap Value Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Mid-capitalization Value mutual funds.
Mid Capitalization Blend Style	The investment objective of the Mid Capitalization Blend Option is to provide long-term growth of capital primarily using domestic mid capitalization securities with a blend of value and growth oriented styles of management.	The Russell Mid-cap Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Mid Capitalization Blend mutual funds.
Mid Capitalization Growth Style	The investment objective of the Mid Capitalization Growth Option is to provide long-term growth of capital primarily using domestic mid capitalization securities with a growth-oriented style of management.	The Russell Mid-cap Growth Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Mid Capitalization Growth mutual funds.
Small Capitalization Value Style	The investment objective of the Small Capitalization Value Option is to provide long-term growth of capital primarily using domestic small-cap securities with a value oriented style of management.	The Russell 2000 Value Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Small Capitalization Value mutual funds.
Small Capitalization Blend Style	The investment objective of the Small Capitalization Blend Option is to provide long-term growth of capital primarily using domestic small-cap securities with a blend of value and growth oriented styles of management.	The Russell 2000 Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Small Capitalization Blend mutual funds.
Small Capitalization Growth Style	The investment objective of the Small Capitalization Growth Option is to provide long-term growth of capital primarily using domestic small-cap securities with a growth oriented style of management.	The Russell 2000 Growth Stock Index is the benchmark. The investment option selected will be compared to the return and the risk of the benchmark.	The investment option will be compared to a universe of Small Capitalization Growth mutual funds.

D. Equity Options – Non U.S.

Asset Class	Objective	Benchmark	Universe
International Stock	The investment objective of the International Stock Option is to provide long-term growth of capital primarily using securities of companies located outside of the United States.	The Morgan Stanley/Capital International (MSCI) Europe, Australia and Far East (EAFE) Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of International Stock mutual funds.
Emerging Markets Stock	The investment objective of the Emerging Markets Stock Option is to provide long-term growth of capital primarily using securities of companies located in emerging countries.	The Morgan Stanley/Capital International (MSCI) Emerging Markets Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Emerging Market Stock mutual funds.

GLOSSARY

ACH: Automated Clearing House.

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS= ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BOND PROCEEDS: Proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

BOOK VALUE: The original acquisition cost of an investment plus or minus the accrued amortization or accretion.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs): Debt obligations collateralized by pools of mortgages. The collateral can consist of conventional whole loans or agency-backed securities such as GNMA's, FNMA's or FHLMC's. The monthly cash flow generated from the pool is transformed into a series of securities with

differing average lives and maturities. CMOs are issued by investment banks, commercial banks, the FNMA and the FHLMC. The issuer takes a higher yielding security and carves it up into different classes with lower interest rates and shorter maturities.

COMMERCIAL PAPER: Commercial Paper consists of short-term note issues by large corporations. Maturity is 270 days or less. There is no explicit coupon rate and interest is figured on a discount basis in the same manner as for Treasury Bills.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Huntsville. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CUSIP NUMBER: A unique nine-digit identification number permanently assigned by the Committee on Uniform Securities Identification Procedures to each publicly traded security at the time of issuance. If the security is in physical form, the CUSIP number is printed on its face.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are

two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S & L=s, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits.

FEDERAL FARM CREDIT BANKS (FFCB): The Federal Farm Credit Banks Consolidated Systemwide Bonds are obligations of the 37 Farm Credit Banks. The Farm Credit Administration which is an independent agency of the U.S. Government supervises the Farm Credit System.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by

the Federal Reserve Bank vis-a-vis member commercial banks.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): The Federal Home Loan Mortgage Corporation, also known as Freddie Mac, is an agency of the Federal Government. The Participation Certificates (PC) issued by Freddie Mac are full faith and credit obligations of an agency of the U.S. Government. In that all loans purchased by Freddie Mac are either FHA/VA mortgages originated by members of the Federal Home Loan Bank System or other HUD-approved mortgages.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA OR FANNIE MAE): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation=s purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA=s securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of seven member Board of Governors in Washington, D.C., 12 regional

banks and about 5,700 commercial banks that are members of the system.

FINANCIAL INSTITUTIONS: As used in these policies also refers to Security Broker/Dealers doing business with the City.

FUNDS: Public funds in the custody of a local government that the investing entity has authority to invest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "passthroughs" is often used to describe Ginnie Maes.

INVESTMENT POOL: An entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are (a) preservation and safety of principal; (b) liquidity; and (c) yield.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes

each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which securities are traded that have one year or less until their maturity.

MONEY MARKET MUTUAL FUNDS: A mutual fund with investments that mature within one year.

MUTUAL FUNDS: A type of investment company that pools investments from participants to purchase a portfolio and give to investors fractional ownership of the created portfolio. A mutual fund redeems investors' shares at the net asset value of the shares.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): A trade association that helps regulate the performance of the over-the-counter securities market.

NET ASSET VALUE (PER SHARE): The value of the securities underlying one share in the investment company.

NO-LOAD MONEY MARKET MUTUAL FUND: A mutual fund that imposes no initial sales charges or fees.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible

monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

QUALIFIED REPRESENTATIVE: A person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following: (A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers; (B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or (C) for an investment pool, the person

authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

RATING AGENCY: A nationally recognized investment rating firm including Moody's and Standard & Poor's that assigns a rating to a debt issue.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves. State Statute defines repurchase agreement as a simultaneous agreement to buy, hold for a specific time, and sell back at a future date obligations described in State Statute Section 2256.009 a (1) (obligations of the United States or its agencies and instrumentalities) at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse repurchase agreement.

REVERSE REPURCHASE AGREEMENT: See Repurchase Agreement.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank=s vaults for protection.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE

COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group.

STATE AGENCY: An office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD or YIELD**

TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

[Exhibit D]



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